

PREPARED DIRECT TESTIMONY
OF MICHAEL ARNOLD

I.C.C. Docket No. 00-0215

CHIEF CLERK'S OFFICE

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ILLINOIS
COMMERCE COMMISSION

1. Q. Please, state your name and business address.
A. Michael Arnold. 119 East Main Street, P.O. Box 188, Grafton, Illinois, 62037.
2. Q. By whom are you employed and in what capacity?
A. I am employed by Grafton Communications, Inc., and its affiliates. Grafton Communications, Inc., is the parent company of Grafton Telephone Company, Grafton Long Distance Company, and Grafton Technologies, Inc. Grafton Telephone Company is a local exchange telecommunications carrier with a certificated local exchange service area. Grafton Long Distance Company, is only an interexchange telecommunications carrier. Grafton Technologies, Inc., is presently only an internet service provider and computer services provider. I am Vice President of Grafton Communications, Inc. I am also Vice President of Grafton Telephone Company and Grafton Technologies, Inc.
3. Q. Please, tell us your background in the telephone industry.
A. I have been working full time in all phases of the telecommunications business for the past 21 years. I began in the telecommunications industry as installation and repair with Contel/GTE. I left Contel/GTE in April 1994 and came to work for Grafton Telephone. All of my service since April 1994 has been with the Grafton companies and their affiliates. I have worked with both local and long distance telephone service. I have worked with outside plant and inside plant, digital switching, fiber optics and commercial operations. I have been directly involved in the management of the companies since 1994.
4. Q. Which entity is the applicant in this docket?
A. Grafton Technologies, Inc. ("Grafton Technologies").
5. Q. What telecommunications certificates does Grafton Technologies currently possess?
A. None.

OFFICIAL FILE

ILL. C. C. DOCKET NO. 00-0215
Applicants' Exhibit No. A
Witness _____
Date 5-8-00 Reporter CB

6. Q. What authority is Grafton Technologies seeking in this case?
- A. Grafton Technologies seeks authority to provide competitive local exchange telecommunications services. We are requesting authority to provide resold and facilities-based local exchange telecommunications services within and throughout the State of Illinois on a state-wide basis.
7. Q. What prompted Grafton Technologies to take steps to get into the competitive local exchange business?
- A. The Grafton Communications, Inc., group of companies is trying to position itself for success in light of the dramatic changes underway in the telecommunications industry. One way to do that is by taking advantage of new business opportunities in this new environment, such as competitive local exchange services.
8. Q. Where does Grafton Technologies propose to provide competitive local exchange services?
- A. We propose to provide resold and facilities-based competitive local exchange telecommunications services within the State of Illinois, provided however, Grafton Technologies will not provide local exchange service to customers within the service area of Grafton Telephone Company. We also recognize that Grafton Technologies could not provide competitive local exchange service in the certificated service area of any other rural telephone company under the Federal Telecommunications Act of 1996 without additional hearings before and findings by this Commission, and no such service is contemplated at this time.
9. Q. How does Grafton Technologies propose to provide competitive local exchange services?
- A. Competitive local exchange services may be provided through any of the following three methods:
- 1) purchase of bundled services for resale,
 - 2) purchase of unbundled network elements, and/or
 - 3) building facilities.

Grafton Technologies has the wherewithal to provide competitive local exchange services under any of the three scenarios or combinations of the three and plans to use the most efficient and economical method on a case by case basis.

Grafton Technologies plans to use a conservative approach to enter the competitive local exchange market and plans to concentrate on areas where it is already providing a complementary service, such as Internet. Grafton Technologies plans to offer low cost, better service with one stop shopping for different services at competitive prices.

10. Q. What type of facilities will be required for Grafton Technologies to provide competitive local exchange telecommunications service and how will those facilities interface and be interconnected with the facilities of other carriers?

A. Construction of new facilities is not necessarily required, such as if we resell bundled services. We will negotiate with other carriers to ensure that existing and/or new facilities interface and are interconnected with the facilities of other carriers.
11. Q. Will the provision of competitive local exchange services by Grafton Technologies require any additional facilities to be acquired or constructed?

A. No. As stated above, new facilities are not necessarily required for Grafton Technologies to provide competitive local exchange service. Grafton Technologies will build new facilities as needed.
12. Q. Will the provision of competitive local exchange services by Grafton Technologies require any agreements with other telecommunications carriers?

A. Yes. Agreements will need to be entered into with the incumbent local exchange carrier for each exchange where we provide competitive local service. These agreements will conform with existing and evolving industry standards and Commission orders and will be comparable to the arrangements currently maintained with other local exchange carriers.
13. Q. What personnel will be required for Grafton Technologies to provide competitive local exchange services?

A. Initially, we plan to use existing personnel to provide competitive local exchange service and to contract out as necessary.
14. Q. Will the provision of competitive local exchange services by Grafton Technologies

require any additional personnel to be hired?

A. We will hire new personnel as growth warrants.

15. Q. Will Grafton Technologies have the financial resources to provide the proposed services?

A. Yes. Grafton Technologies will have the financial resources and ability to provide local exchange telecommunications services. If necessary, Grafton Communications, Inc., will provide financial resources for Grafton Technologies to provide local exchange telecommunications services.

16. Q. Does Grafton Communications, Inc., have the financial resources to provide funding for Grafton Technologies' competitive local exchange services business?

A. Yes.

17. Q. I show you a document which has been marked as Applicant's Exhibit No. 1 and ask if you can identify the document?

A. Yes. Applicant's Exhibit No. 1 is a copy of Grafton Communications, Inc.'s and subsidiaries' consolidated financial statements for the years ended December 31, 1997 and 1998, including a consolidating financial statement which includes Grafton Technologies. These statements show that Grafton Technologies has the financial resources to fund the competitive local exchange telecommunications business. These statements also show that Grafton Communications, Inc. has the financial resources to provide additional funding for Grafton Technologies, if necessary.

18. Q. I show you a document which has been marked as Applicant's Exhibit No. 2 and ask if you can identify the document?

A. Yes. Applicant's Exhibit No. 2 is a trial balance report for Grafton Technologies for the year ending December 31, 1999.

19. Q. Will Grafton Technologies have the technical and managerial resources to provide the proposed services?

A. Yes. The members of the Board of Directors of Grafton Technologies have extensive experience in both the management and technical aspects of the telecommunications industry. In addition, Grafton Technologies has access to and will contract with

Grafton Telephone Company as needed for any additional technical and managerial resources necessary for Grafton Technologies to provide competitive local exchange telecommunications services. We have a staff of trained professionals at Grafton Telephone Company who will be available to provide support for the competitive local exchange business of Grafton Technologies.

20. Q. Will you yourself and the other officers of the company be involved in the local exchange operations of Grafton Technologies?

A. Yes.

21. Q. Who are the officers and directors of Grafton Technologies, Inc.?

A. Paul W. Arnold, President and Director
Michael Arnold , Vice-President and Director
Kevin W. Hamilton, Vice-President and Director
Susan C. Hamilton, Secretary and Director
Patsy Arnold, Treasurer and Director

22. Q. Briefly describe the background and experience of the officers and directors who will be directly involved in the competitive local exchange operations of Grafton Technologies.

A. The officers and directors of Grafton Technologies have a long history of service in the telephone industry. All have worked in full time capacities over the past 20 or 30+ years.

23. Q. How will Grafton Technologies bill for its services?

A. Grafton Technologies will contract with a reputable billing services company for billing and collection service.

24. Q. How will billing disputes be handled?

A. Disputes will be handled by Grafton Technologies staff. Customers who indicate nonacceptance of the decision of supervisory personnel, will be advised of the telephone number and address of the Consumer Affairs Division of the Illinois Commerce Commission.

25. Q. Are you aware of and will Grafton Technologies comply with 83 Illinois Administrative Code Part 735 regarding establishment of credit, billing, deposits, termination of service and issuance of telephone directories?
- A. Yes, we are aware of the Commission's rules in this regard and are following them now for the local telephone operations of Grafton Telephone Company. We will comply with 83 Illinois Administrative Code Part 735 for the local exchange operations of Grafton Technologies with one exception. We are seeking a variance from Part 735.180 regarding issuance of telephone directories for Grafton Technologies' local exchange operations.
26. Q. How will Grafton Technologies provide a directory?
- A. It will be provided by contract with the incumbent LEC for local exchange directory service and therefore Grafton Technologies requests a variance from 735.180 of 83 Ill. Adm. Code.
27. Q. How will trouble reports be handled by Grafton Technologies?
- A. Trouble reports will be handled either by the incumbent LEC(s) or by Grafton Telephone Company staff under the agreement to be entered into between Grafton Technologies and the telephone company. These matters will be handled in the same manner that they are handled by those companies today with other customers.
28. Q. Who will be the ICC Staff's contact at Grafton Technologies for consumer complaints?
- A. I will be the contact.
29. Q. Are you aware of and will Grafton Technologies comply with 83 Illinois Administrative Code Part 705 regarding preservation of records of telephone utilities?
- A. Yes, we are aware of the Commission's rules in this regard and are following them now for the local telephone operations of Grafton Telephone Company. We will comply with 83 Illinois Administrative Code Part 705 for the local exchange operations of Grafton Technologies.

30. Q. Are you aware of and will Grafton Technologies comply with 83 Illinois Administrative Code Parts 720 and 725 regarding 9-1-1 implementation reports and standards of service for 9-1-1 emergency systems?
- A. Yes, we are aware of the Commission's rules in this regard and are following them now for the local telephone operations of Grafton Telephone Company. We will comply with 83 Illinois Administrative Code Parts 720 and 725 for the local exchange operations of Grafton Technologies.
31. Q. How will emergency calls be handled?
- A. Emergency calls will be handled either by the incumbent LEC(s) or by Grafton Telephone Company staff under the agreement to be entered into between Grafton Technologies and the telephone company. These matters will be handled in the same manner that they are handled by those companies today with other customers.
32. Q. How will 9-1-1 work if Grafton Technologies is granted a Certificate for local exchange service.
- A. Grafton Technologies will contract with the incumbent LEC to provide 9-1-1 service and trunk lines will connect Grafton Technologies to the incumbent LEC(s) switch. Grafton Technologies will file tariffs for all services and charges associated with 9-1-1. Grafton Technologies will coordinate with the incumbent LEC(s) and local 9-1-1 system to minimize obstacles and provide transparent service to end users. Grafton Technologies will minimize the call setup time and any costs associated with the transaction will be handled by agreement with the incumbent LEC currently providing switching services. Transition costs may be charged to the 9-1-1 systems or recouped through tariff charges. Grafton Technologies will coordinate procedures with the incumbent LEC for the passing of 9-1-1 surcharge collections to the local 9-1-1 system. Grafton Technologies will not pass any network charges to any of the 9-1-1 systems and will endeavor to provide the same quality of 9-1-1 service offered by the incumbent LEC or better. Grafton Technologies will insure that call boxes are accessible to 911 systems or file for a waiver of Part 725.500(o) and 725.620(b). Grafton Technologies anticipates that the 9-1-1 database will be updated on a daily basis as customers are added or subtracted.
33. Q. Who will be the ICC Staff's contact at Grafton Technologies for 9-1-1 issues?
- A. I will be the contact.
34. Q. Will Grafton Technologies' accounting system account for the Illinois Gross Receipt Tax?

- A. Yes. The accounting system currently in use by Grafton Technologies provides detailed data sufficient for the preparation of the Illinois Gross Receipt Tax. If granted a Certificate in this docket, Grafton Technologies will establish a new account for local exchange service and will keep separate accounts for intrastate and interstate receipts. Grafton Technologies intends to sign agreements with the primary local exchange carrier which will provide for detailed accounting of services including those from which a municipal tax or infrastructure maintenance fee may be payable. Grafton Technologies will maintain its records in sufficient detail to facilitate the calculation of all applicable taxes.
35. Q. Do unusual or peculiar circumstances exist that warrant a departure from the procedures prescribed in 83 Illinois Administrative Code Part 710, Uniform System of Accounts?
- A. Yes. Grafton Technologies is a small company and compliance with Part 710 would cause additional expense. In the present competitive environment, other carriers similarly situated would have an unfair advantage. We have therefore requested a waiver or variance of the requirements of Code Part 710.
36. Q. How will the continued use of Grafton Technologies' accounting system maintain uniformity among telecommunications companies?
- A. Uniformity is maintained because Grafton Technologies follows generally accepted accounting principles comparable to other competitive carriers. Results on Grafton Technologies' financial statements will be comparable from period to period because it follows accounting concepts, standards, principals, practices and procedures which assure that their statements are relevant and reliable.
37. Q. Are you asking for a variance or waiver of certain parts of 83 Illinois Administrative Code?
- A. Yes. We are asking for waiver of Part 710 and a variance to Section 735.180 of Part 735 for facilities based local exchange service. These waivers are necessary so as not to place Grafton Technologies at a competitive disadvantage. Waiver of these regulations by this Commission would reduce the economic burdens of regulation on Grafton Technologies and would not be inconsistent with the law or the purposes and policies of the Public Utilities Act.
38. Q. Will Grafton Technologies cooperate with the Universal Telephone Assistance

Corporation (UTAC) and the Illinois Telecommunications Access Corporation (ITAC)?

- A. Yes. Grafton Technologies will sign and return the membership forms to UTAC and ITAC.
39. Q. Will Grafton Technologies participate in programs for the hearing impaired?
- A. Yes. Grafton Technologies will insure collection and remittance to ITAC of the line charge amount collected monthly from all telephone subscribers for the TTY Equipment Loan Program and Telecommunications Relay Service and will distinguish between resale and facilities based service.
40. Q. How will Grafton Technologies support the Universal Telephone Service Assistance Program (UTSAP)?
- A. The Company will solicit, collect, and remit to UTAC the voluntary contributions collected monthly from its telephone subscribers to support UTSAP.
41. Q. How will Grafton Technologies support the Lifeline Program?
- A. Grafton Technologies will offer the supplemental waivers on any installation charge for the Lifeline Program.
42. Q. Are you aware of and will Grafton Technologies comply with 83 Illinois Administrative Code Parts 755, 756 and 757 regarding telecommunications access for persons with disabilities, telecommunications relay service and telephone assistance programs?
- A. Yes.
43. Q. Are you aware of and will Grafton Technologies comply with 83 Illinois Administrative Code Part 772 regarding pay-per-call services?
- A. Yes.
44. Q. What is Grafton Technologies' policy on "slamming?"

- A. Grafton Technologies will not permit slamming of local exchange or interexchange customers. No slamming complaints have ever been made against Grafton Technologies. Grafton Technologies will not change any customer's service unless it has a request in writing or with proper verification as required by law.
45. Q. How will Grafton Technologies solicit local exchange customers?
- A. Grafton Technologies plans an aggressive advertising campaign as well as telephone solicitation to both business and residential customers. Grafton Technologies may employ professional telemarketers, but will insist that they follow Grafton Technologies' policy on slamming.
46. Q. Does this conclude your prefiled direct testimony?
- A. Yes.

Grafton Communications, Inc. and Subsidiaries
Grafton, Illinois

Consolidated Financial Statements and
Supplementary Consolidating Information
Years Ended December 31, 1998 and 1997
With Accountant's Report

APPLICANT'S EXHIBIT 1



Kiesling Associates LLP

CERTIFIED PUBLIC ACCOUNTANTS

Independent Accountant's Report

To the Board of Directors
Grafton Communications, Inc. and Subsidiaries
Grafton, Illinois 62037-0188

We have compiled the accompanying consolidated balance sheets of Grafton Communications, Inc., (an Illinois Corporation) and subsidiaries as of December 31, 1998 and 1997, and the related consolidated statements of income, retained earnings, and cash flows for the years then ended, and accompanying supplementary consolidating information contained in Schedules I and II, which are presented only for supplementary analysis purposes, in accordance with Statements on Standards for Accounting and Review Services issued by the American Institute of Certified Public Accountants.

A compilation is limited to presenting in the form of financial statements and supplementary schedules information that is the representation of management. We have not audited or reviewed the accompanying consolidated financial statements and supplementary schedules and, accordingly, do not express an opinion or any other form of assurance on them.

Management has elected to omit substantially all of the disclosures required by generally accepted accounting principles. If the omitted disclosures were included in the financial statements, they might influence the user's conclusions about the Company's financial position, results of operations, and cash flows. Accordingly, these financial statements are not designed for those who are not informed about such matters.

Kiesling Associates LLP

Springfield, Illinois
January 29, 1999

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Balance Sheets

	<u>December 31,</u>	
	<u>1998</u>	<u>1997</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash and cash equivalents	\$ 860,967	\$ 722,190
Temporary investments	222,588	211,172
Accounts receivable:		
Due from customers	10,694	20,125
Unbilled interexchange service	38,460	38,563
Interexchange carriers	119,212	175,150
Interest receivable	1,362	1,380
Materials and supplies, at average cost	36,516	38,844
Other prepayments	<u>18,661</u>	<u>45,617</u>
	<u>1,308,460</u>	<u>1,253,041</u>
NONCURRENT ASSETS		
Investments	29,237	29,237
Deferred income taxes	16,785	--
Deferred debt issuance expense	<u>9,751</u>	<u>10,552</u>
	<u>55,773</u>	<u>39,789</u>
PROPERTY AND EQUIPMENT		
Regulated telecommunications plant in service	2,664,164	2,457,875
Nonregulated telecommunications plant in service	89,495	61,673
Other property	<u>40,815</u>	<u>40,815</u>
	2,794,474	2,560,363
Accumulated depreciation	<u>(1,309,519)</u>	<u>(1,148,160)</u>
	1,484,955	1,412,203
Telecommunications plant under construction	<u>304,081</u>	<u>70,900</u>
	<u>1,789,036</u>	<u>1,483,103</u>
TOTAL ASSETS	<u>\$ 3,153,269</u>	<u>\$ 2,775,933</u>

	December 31,	
	1998	1997
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
CURRENT LIABILITIES		
Accounts payable:		
Interexchange carriers	\$ 9,858	\$ 8,985
Other	34,600	27,378
Current portion of long-term debt	16,000	15,100
Advance billings and payments	10,758	4,540
Customer deposits	1,225	1,775
Accrued income taxes	54,815	62,938
Accrued general taxes	6,109	7,066
	<u>133,365</u>	<u>127,782</u>
LONG-TERM DEBT, less current portion	<u>269,317</u>	<u>285,289</u>
NONCURRENT DEFERRED CREDITS		
Deferred investment tax credit	5,850	7,800
Deferred income taxes	--	22,113
Deferred regulatory liability	3,697	4,930
	<u>9,547</u>	<u>34,843</u>
STOCKHOLDERS' EQUITY		
Common stock - no par value, 1000 shares authorized, 315 issued and outstanding	15,750	15,750
Retained earnings	<u>2,725,290</u>	<u>2,312,269</u>
	<u>2,741,040</u>	<u>2,328,019</u>
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	\$ <u>3,153,269</u>	\$ <u>2,775,933</u>

See accountant's report.

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Statements of Income

	<u>Years Ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
OPERATING REVENUES		
Local network services	\$ 89,903	\$ 87,067
Interstate network access services	507,830	454,664
Intrastate network access services	639,892	601,021
Long distance message services	270,115	248,173
Internet revenue	159,274	83,003
Miscellaneous services	54,116	61,938
Equipment sold, net of cost (\$33,513 and \$15,132)	(2,299)	1,181
	<u>1,718,831</u>	<u>1,537,047</u>
OPERATING EXPENSES		
Plant specific operations	261,564	255,821
Plant nonspecific operations	169,755	147,693
Depreciation	239,001	212,733
Customer operations	149,750	122,962
Corporate operations	263,001	279,096
General taxes	5,898	25,587
	<u>1,088,969</u>	<u>1,043,892</u>
OPERATING INCOME	<u>629,862</u>	<u>493,155</u>
OTHER INCOME (EXPENSES)		
Interest and dividend income	39,781	30,599
Other	(687)	(1,057)
Interest expense	(21,205)	(20,547)
	<u>17,889</u>	<u>8,995</u>
INCOME BEFORE INCOME TAXES	647,751	502,150
INCOME TAXES	<u>234,730</u>	<u>202,838</u>
NET INCOME	<u>\$ 413,021</u>	<u>\$ 299,312</u>

See accountant's report.

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Statements of Retained Earnings

	<u>Years Ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
Balance, Beginning of Year	\$ 2,312,269	\$ 2,012,957
 Add - Net Income for Year	 <u>413,021</u>	 <u>299,312</u>
 Balance, End of Year	 <u>\$ 2,725,290</u>	 <u>\$ 2,312,269</u>

See accountant's report.

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Statements of Cash Flows

	<u>Years Ended December 31,</u>	
	<u>1998</u>	<u>1997</u>
Increase (Decrease) in Cash and Cash Equivalents		
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income	\$ 413,021	\$ 299,312
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	239,802	213,534
Deferred income taxes	(40,131)	(12,145)
Amortization of investment tax credits	(1,950)	(1,950)
Changes in assets and liabilities:		
(Increase) Decrease in:		
Accounts receivable	65,490	(32,825)
Materials and supplies	2,327	3,867
Prepayments	26,956	(22,996)
Increase (Decrease) in:		
Accounts payable	8,095	(6,176)
Accrued taxes	(9,080)	63,843
Other	5,668	2,775
Net cash provided by operating activities	<u>710,198</u>	<u>507,239</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Capital expenditures	(544,934)	(205,455)
Purchase of temporary investments	(450,838)	(416,660)
Proceeds from sale of temporary investments	439,423	405,488
Cost of removing plant, net of salvage	--	(2,115)
Net cash used in investing activities	<u>(556,349)</u>	<u>(218,742)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(15,072)	(14,138)
Net cash used in financing activities	<u>(15,072)</u>	<u>(14,138)</u>
Net Increase in Cash and Cash Equivalents	138,777	274,359
Cash and Cash Equivalents at Beginning of Year	<u>722,190</u>	<u>447,831</u>
Cash and Cash Equivalents at End of Year	\$ <u>860,967</u>	\$ <u>722,190</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during year for: Interest	\$ 18,765	\$ 19,699
Income taxes	\$ 284,934	\$ 149,405

See accountant's report.

Supplementary Consolidating Information

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Consolidating Balance Sheet - December 31, 1998

Schedule I

	Grafton Communications, Inc.	Grafton Telephone Company	Grafton Long Distance Company	Grafton Technologies, Inc.	Eliminating Entries	Consolidated Totals
CURRENT ASSETS						
Cash and cash equivalents	\$ 5,126	\$ 643,475	\$ 110,064	\$ 102,302	\$ --	\$ 860,967
Temporary investments	--	222,588	--	--	--	222,588
Accounts receivable:						
Due from customers	--	10,694	--	--	--	10,694
Unbilled interexchange services	--	38,460	--	--	--	38,460
Interexchange access revenues	--	119,212	--	--	--	119,212
Affiliated companies	87,569	130,638	30,907	9,317	(258,431)	--
Interest receivable	--	1,362	--	--	--	1,362
Materials and supplies at average cost	--	34,526	--	1,990	--	36,516
Other prepayments	--	18,661	--	--	--	18,661
	<u>92,695</u>	<u>1,219,616</u>	<u>140,971</u>	<u>113,609</u>	<u>(258,431)</u>	<u>1,308,460</u>
NONCURRENT ASSETS						
Investments	--	24,137	5,100	--	--	29,237
Investment - Grafton Telephone Co.	2,566,406	--	--	--	(2,566,406)	--
Investment - Grafton Long Distance Co.	78,399	--	--	--	(78,399)	--
Investment - Grafton Technologies, Inc.	64,802	--	--	--	(64,802)	--
Deferred income taxes	--	16,785	--	--	--	16,785
Unamortized debt issuance expenses	--	9,751	--	--	--	9,751
	<u>2,709,607</u>	<u>50,673</u>	<u>5,100</u>	<u>--</u>	<u>(2,709,607)</u>	<u>55,773</u>
PROPERTY AND EQUIPMENT						
Regulated telecommunications plant in service	--	2,664,164	--	--	--	2,664,164
Nonregulated communications plant in service	--	--	--	89,495	--	89,495
Other property	--	40,815	--	--	--	40,815
	--	2,704,979	--	89,495	--	2,794,474
Accumulated depreciation	--	(1,280,782)	--	(28,737)	--	(1,309,519)
	--	1,424,197	--	60,758	--	1,484,955
Telecommunications plant under construction	--	304,081	--	--	--	304,081
	--	<u>1,728,278</u>	--	<u>60,758</u>	--	<u>1,789,036</u>
TOTAL ASSETS	<u>\$ 2,802,302</u>	<u>\$ 2,998,567</u>	<u>\$ 146,071</u>	<u>\$ 174,367</u>	<u>\$ (2,968,038)</u>	<u>\$ 3,153,269</u>

	Grafton Communications, Inc.	Grafton Telephone Company	Grafton Long Distance Company	Grafton Technologies, Inc.	Eliminating Entries	Consolidated Totals
CURRENT LIABILITIES						
Accounts payable:						
Interexchange carriers	\$ --	\$ 9,858	\$ --	\$ --	\$ --	\$ 9,858
Affiliates	6,447	33,777	32,110	148,528	(220,862)	--
Other	--	32,736	1,585	279	--	34,600
Current portion of long-term debt	--	16,000	--	--	--	16,000
Advance billings and payments	--	--	--	10,758	--	10,758
Customer deposits	--	1,225	--	--	--	1,225
Accrued income taxes	54,815	53,816	33,753	--	(87,569)	54,815
Accrued general taxes	--	5,885	224	--	--	6,109
	<u>61,262</u>	<u>153,297</u>	<u>67,672</u>	<u>159,565</u>	<u>(308,431)</u>	<u>133,365</u>
LONG-TERM DEBT, less current portion	<u>--</u>	<u>269,317</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>269,317</u>
NONCURRENT DEFERRED CHARGES						
Deferred investment tax credit	--	5,850	--	--	--	5,850
Deferred income taxes	--	--	--	--	--	--
Deferred regulatory liability	--	3,697	--	--	--	3,697
	<u>--</u>	<u>9,547</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>9,547</u>
STOCKHOLDER'S EQUITY						
Common stock	15,750	25,000	25,000	25,000	(75,000)	15,750
Retained earnings	<u>2,725,290</u>	<u>2,550,656</u>	<u>53,399</u>	<u>(10,198)</u>	<u>(2,593,857)</u>	<u>2,725,290</u>
	2,741,040	2,575,656	78,399	14,802	(2,668,857)	2,741,040
Treasury stock at cost, 185 shares	--	(9,250)	--	--	9,250	--
	<u>2,741,040</u>	<u>2,566,406</u>	<u>78,399</u>	<u>14,802</u>	<u>(2,659,607)</u>	<u>2,741,040</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 2,802,302</u>	<u>\$ 2,998,567</u>	<u>\$ 146,071</u>	<u>\$ 174,367</u>	<u>\$ (2,968,038)</u>	<u>\$ 3,153,269</u>

See accountant's report.

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Consolidating Balance Sheet - December 31, 1997

Schedule I

	Grafton Communications, Inc.	Grafton Telephone Company	Grafton Long Distance Company	Grafton Technologies, Inc.	Eliminating Entries	Consolidated Totals
CURRENT ASSETS						
Cash and cash equivalents	\$ 3,535	\$ 640,273	\$ 41,056	\$ 37,326	\$ --	\$ 722,190
Temporary investments	--	211,172	--	--	--	211,172
Accounts receivable:						
Due from customers	--	20,125	--	--	--	20,125
Unbilled interexchange services	--	38,563	--	--	--	38,563
Interexchange access revenues	--	169,534	5,616	--	--	175,150
Affiliated companies	95,255	78,003	29,422	14,289	(216,969)	--
Interest receivable	--	1,380	--	--	--	1,380
Materials and supplies at average cost	--	35,727	--	3,117	--	38,844
Other prepayments	--	28,205	14,947	2,465	--	45,617
	<u>98,790</u>	<u>1,222,982</u>	<u>91,041</u>	<u>57,197</u>	<u>(216,969)</u>	<u>1,253,041</u>
NONCURRENT ASSETS						
Investments	--	24,137	5,100	--	--	29,237
Investment - Grafton Telephone Co.	2,203,896	--	--	--	(2,203,896)	--
Investment - Grafton Long Distance Co.	50,168	--	--	--	(50,168)	--
Investment - Grafton Technologies, Inc.	52,392	--	--	--	(52,392)	--
Deferred income taxes	--	--	--	--	--	--
Unamortized debt issuance expenses	--	10,552	--	--	--	10,552
	<u>2,306,456</u>	<u>34,689</u>	<u>5,100</u>	<u>--</u>	<u>(2,306,456)</u>	<u>39,789</u>
PROPERTY AND EQUIPMENT						
Regulated telecommunications plant in service	--	2,457,875	--	--	--	2,457,875
Nonregulated communications plant in service	--	--	--	61,673	--	61,673
Other property	--	40,815	--	--	--	40,815
	--	2,498,690	--	61,673	--	2,560,363
Accumulated depreciation	--	(1,134,579)	--	(13,581)	--	(1,148,160)
	--	1,364,111	--	48,092	--	1,412,203
Telecommunications plant under construction	--	70,900	--	--	--	70,900
	--	1,435,011	--	48,092	--	1,483,103
TOTAL ASSETS	<u>\$ 2,405,246</u>	<u>\$ 2,692,682</u>	<u>\$ 96,141</u>	<u>\$ 105,289</u>	<u>\$ (2,523,425)</u>	<u>\$ 2,775,933</u>

	Grafton Communications, Inc.	Grafton Telephone Company	Grafton Long Distance Company	Grafton Technologies, Inc.	Eliminating Entries	Consolidated Totals
CURRENT LIABILITIES						
Accounts payable:						
Interexchange carriers	\$ --	\$ 8,985	\$ --	\$ --	\$ --	\$ 8,985
Affiliates	14,289	29,422	30,062	97,941	(171,714)	--
Other	--	26,962	--	416	--	27,378
Current portion of long-term debt	--	15,100	--	--	--	15,100
Advance billings and payments	--	--	--	4,540	--	4,540
Customer deposits	--	1,775	--	--	--	1,775
Accrued income taxes	62,938	79,344	15,911	--	(95,255)	62,938
Accrued general taxes	--	7,066	--	--	--	7,066
	<u>77,227</u>	<u>168,654</u>	<u>45,973</u>	<u>102,897</u>	<u>(266,969)</u>	<u>127,782</u>
LONG-TERM DEBT, less current portion	<u>--</u>	<u>285,289</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>285,289</u>
NONCURRENT DEFERRED CHARGES						
Deferred investment tax credit	--	7,800	--	--	--	7,800
Deferred income taxes	--	22,113	--	--	--	22,113
Deferred regulatory liability	--	4,930	--	--	--	4,930
	<u>--</u>	<u>34,843</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>34,843</u>
STOCKHOLDER'S EQUITY						
Common stock	15,750	25,000	25,000	25,000	(75,000)	15,750
Retained earnings	<u>2,312,269</u>	<u>2,188,146</u>	<u>25,168</u>	<u>(22,608)</u>	<u>(2,190,706)</u>	<u>2,312,269</u>
	2,328,019	2,213,146	50,168	2,392	(2,265,706)	2,328,019
Treasury stock at cost, 185 shares	--	(9,250)	--	--	9,250	--
	<u>2,328,019</u>	<u>2,203,896</u>	<u>50,168</u>	<u>2,392</u>	<u>(2,256,456)</u>	<u>2,328,019</u>
TOTAL LIABILITIES AND STOCKHOLDER'S EQUITY	<u>\$ 2,405,246</u>	<u>\$ 2,692,682</u>	<u>\$ 96,141</u>	<u>\$ 105,289</u>	<u>\$ (2,523,425)</u>	<u>\$ 2,775,933</u>

See accountant's report.

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Consolidating Income Statement - Year Ended December 31, 1998

Schedule II

	Grafton Communications, Inc.	Grafton Telephone Company	Grafton Long Distance Company	Grafton Technologies, Inc.	Eliminating Entries	Consolidated Totals
OPERATING REVENUES						
Local network services	\$ --	\$ 89,903	\$ --	\$ --	\$ --	\$ 89,903
Interstate network access services	--	507,830	--	--	--	507,830
Intrastate network access services	--	639,892	--	--	--	639,892
Long distance message revenues	--	--	270,115	--	--	270,115
Internet revenues	--	--	--	159,274	--	159,274
Miscellaneous services	--	94,533	--	5,120	(45,537)	54,116
Equipment sold, net of cost (\$33,513)	--	--	--	(2,299)	--	(2,299)
	<u>--</u>	<u>1,332,158</u>	<u>270,115</u>	<u>162,095</u>	<u>(45,537)</u>	<u>1,718,831</u>
OPERATING EXPENSES						
Plant specific operations	--	156,612	--	104,952	--	261,564
Plant nonspecific operations	--	5,220	164,535	--	--	169,755
Depreciation	--	223,845	--	15,156	--	239,001
Customer operations	--	127,626	51,747	15,914	(45,537)	149,750
Corporate operations	1,925	248,078	7,227	5,771	--	263,001
General taxes	--	5,314	534	50	--	5,898
	<u>1,925</u>	<u>766,695</u>	<u>224,043</u>	<u>141,843</u>	<u>(45,537)</u>	<u>1,088,969</u>
OPERATING INCOME (LOSS)	<u>(1,925)</u>	<u>565,463</u>	<u>46,072</u>	<u>20,252</u>	<u>--</u>	<u>629,862</u>
OTHER INCOME (EXPENSES)						
Interest and dividend income	--	39,781	--	--	--	39,781
Other	--	(687)	--	--	--	(687)
Interest expense	(1,549)	(19,656)	--	--	--	(21,205)
	<u>(1,549)</u>	<u>19,438</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>17,889</u>
INCOME (LOSS) BEFORE INCOME TAXES	(3,474)	584,901	46,072	20,252	--	647,751
INCOME TAXES (BENEFIT)	<u>(1,345)</u>	<u>210,391</u>	<u>17,842</u>	<u>7,842</u>	<u>--</u>	<u>234,730</u>
INCOME (LOSS) BEFORE EQUITY EARNINGS OF SUBSIDIARIES	(2,129)	374,510	28,230	12,410	--	413,021
EQUITY EARNINGS OF SUBSIDIARIES	<u>415,150</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(415,150)</u>	<u>--</u>
NET INCOME (LOSS)	<u>\$ 413,021</u>	<u>\$ 374,510</u>	<u>\$ 28,230</u>	<u>\$ 12,410</u>	<u>\$ (415,150)</u>	<u>\$ 413,021</u>

See accountant's report.

Grafton Communications Inc., and Subsidiaries
Grafton, Illinois

Consolidating Income Statement - Year Ended December 31, 1997

Schedule II

	Grafton Communications, Inc.	Grafton Telephone Company	Grafton Long Distance Company	Grafton Technologies, Inc.	Eliminating Entries	Consolidated Totals
OPERATING REVENUES						
Local network services	\$ --	\$ 87,067	\$ --	\$ --	\$ --	\$ 87,067
Interstate network access services	--	454,664	--	--	--	454,664
Intrastate network access services	--	601,021	--	--	--	601,021
Long distance message revenues	--	--	248,173	--	--	248,173
Internet revenues	--	--	--	83,003	--	83,003
Miscellaneous services	--	96,587	--	1,999	(36,648)	61,938
Equipment sold, net of cost (\$15,132)	--	--	--	1,181	--	1,181
	<u>--</u>	<u>1,239,339</u>	<u>248,173</u>	<u>86,183</u>	<u>(36,648)</u>	<u>1,537,047</u>
OPERATING EXPENSES						
Plant specific operations	--	162,987	--	92,834	--	255,821
Plant nonspecific operations	--	5,149	142,544	--	--	147,693
Depreciation	--	202,859	--	9,874	--	212,733
Customer operations	--	116,977	41,077	1,556	(36,648)	122,962
Corporate operations	1,494	252,376	23,761	1,465	--	279,096
General taxes	117	25,087	279	104	--	25,587
	<u>1,611</u>	<u>765,435</u>	<u>207,661</u>	<u>105,833</u>	<u>(36,648)</u>	<u>1,043,892</u>
OPERATING INCOME (LOSS)	<u>(1,611)</u>	<u>473,904</u>	<u>40,512</u>	<u>(19,650)</u>	<u>--</u>	<u>493,155</u>
OTHER INCOME (EXPENSES)						
Interest and dividend income	--	30,599	--	--	--	30,599
Other	--	(1,057)	--	--	--	(1,057)
Interest expense	--	(20,547)	--	--	--	(20,547)
	<u>--</u>	<u>8,995</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>8,995</u>
INCOME (LOSS) BEFORE INCOME TAXES	(1,611)	482,899	40,512	(19,650)	--	502,150
INCOME TAXES (BENEFIT)	<u>(623)</u>	<u>195,381</u>	<u>15,691</u>	<u>(7,611)</u>	<u>--</u>	<u>202,838</u>
INCOME (LOSS) BEFORE EQUITY EARNINGS OF SUBSIDIARIES	(988)	287,518	24,821	(12,039)	--	299,312
EQUITY EARNINGS OF SUBSIDIARIES	<u>300,300</u>	<u>--</u>	<u>--</u>	<u>--</u>	<u>(300,300)</u>	<u>--</u>
NET INCOME (LOSS)	<u>\$ 299,312</u>	<u>\$ 287,518</u>	<u>\$ 24,821</u>	<u>\$ (12,039)</u>	<u>\$ (300,300)</u>	<u>\$ 299,312</u>

See accountant's report.

Lead + Sub	Description	Adjusted 12/31/98	Adjusted 12/31/99
1130.01	Cash and cash equivalents		
1130.10	Cash - General Funds	102,052.22	78,580.14
1150.00	Petty Cash	250.00	250.00
	Total Cash and cash equivalents	102,302.22	78,830.14
1180.01	A/R - Customers		
1180.10	Due From Subscribers		589.75
	Total A/R - Customers	0.00	589.75
1191	A/R - Affiliates		
1190.10	A/R - Grafton Telephone Co.	2,869.74	
1190.11	A/R - Grafton Comm., Inc.	6,447.00	
	Total A/R - Affiliates	9,316.74	0.00
1220	Materials and supplies		
1220.20	Materials & Supplies	1,989.77	5,907.55
	Total Materials and supplies	1,989.77	5,907.55
1300.03	Prepaid - other		
1330.00	Other Prepayments		
	Total Prepaid - other	0.00	0.00
	CURRENT LIABILITIES	113,608.73	85,327.44
2008	Internet equipment		
2112.00	Motor Vehicles		20,182.02
2124.00	Gen. Purp. Computers	4,846.29	10,278.59
2217.11	Server	54,439.36	55,865.32
2217.12	Portmaster	13,432.75	34,926.34
2217.13	Router	3,958.40	3,958.40
2217.14	Modems	12,404.25	16,251.25
2217.15	Other	414.00	414.00
	Total Internet equipment	89,495.05	141,875.92
3100	Accumulated depreciation		
3112.00	A/D - Motor Vehicles		-82.00
3124.00	A/D - Gen. Purp. Computers	-2,110.00	-3,622.00
3217.11	A/D - Server	-17,244.00	-28,275.00
3217.12	A/D - Portmaster	-2,550.00	-7,386.00
3217.13	A/D - Router	-1,980.00	-2,772.00
3217.14	A/D - Modems	-4,646.00	-7,512.00
3217.15	A/D - Other	-207.00	-290.00
	Total Accumulated depreciation	-28,737.00	-49,939.00
	PROPERTY, PLANT AND EQUIPMENT	60,758.05	91,936.92
	Total Assets	174,366.78	177,264.36

Lead + Sub	Description	Adjusted 12/31/98	Adjusted 12/31/99
4010.02	A/P - Affiliates		
4010.10	A/P - Grafton Tel. Co.	-98,527.98	-87,025.73
4010.11	A/P - Grafton Comm., Inc.	-50,000.00	-25,000.00
	Total A/P - Affiliates	-148,527.98	-112,025.73
4010.03	A/P - Other		
4010.20	A/P - Other		1,625.00
4010.27	A/P - State ROT	-279.21	-1,460.54
	Total A/P - Other	-279.21	164.46
4030	Advance billing and payments		
4030.00	Adv. Billing & Payments	-10,757.98	-11,872.56
	Total Advance billing and payments	-10,757.98	-11,872.56
4070	Income taxes accrued		
4070.10	Accr. Fed. Income Taxes		17,597.00
4070.20	Accr. St. Income Taxes		-3,179.00
	Total Income taxes accrued	0.00	14,418.00
	CURRENT LIABILITIES	-159,565.17	-109,315.83
	Total Liabilities	-159,565.17	-109,315.83
4500.02	Common stock		
4510.00	Capital Stock	-25,000.00	-25,000.00
	Total Common stock	-25,000.00	-25,000.00
4500.05	Retained earnings		
4550.00	Retained Earnings	22,607.87	10,198.39
	Total Retained earnings	22,607.87	10,198.39
	STOCKHOLDERS' EQUITY	-2,392.13	-14,801.61
	Net (Income) Loss	-12,409.48	-53,146.92
	Total Shareholders' Equity	-14,801.61	-67,948.53
	Total Liabilities & Shareholder's Equity	-174,366.78	-177,264.36

Lead + Sub	Description	Adjusted 12/31/98	Adjusted 12/31/99
5160	Internet services		
5600.01	Internet Monthly Serv. Rev.	-150,708.72	-270,115.09
5600.21	Internet Set-Up Rev.	-8,565.38	-13,369.42
5600.22	Computer Servicing		250.51
	Total Internet services	-159,274.10	-283,234.00
5260	Miscellaneous		
5635.00	Satellite TV Install. Rev.	-5,120.00	-670.00
	Total Miscellaneous	-5,120.00	-670.00
5280	Nonregulated sales		
5630.00	Equipment Sales	-31,213.83	-54,577.85
5631.00	Cost of Equipment Sold	33,513.46	57,354.14
	Total Nonregulated sales	2,299.63	2,776.29
	OPERATING REVENUES	-162,094.47	-281,127.71
	Total Revenues	-162,094.47	-281,127.71
6000	Plant specific operations		
5610.01	Internet Serv. Provider Cost	24,500.00	21,901.44
5610.02	Internet Telephone Access Cost	31,389.77	56,965.24
5610.21	Internet Set-Up Software Exp.	3,362.93	122.15
5636.00	Satellite TV Install. Mat. Exp.	3,834.97	3,738.53
5641.10	Network Installation-Personnel Exp		1,210.80
5641.20	Network Installation-Materials Exp		125.13
6116.00	Work Equipment	267.72	82.69
6121.00	Land and Building Exp.	1,214.50	1,200.06
6123.00	Office Equipment	22.47	
6124.00	Computer Exp.	1,533.57	306.29
6217.00	Internet Equip. Maintenance	277.90	10,410.34
6217.11	Internet Equip. Maintenance -GTC	37,880.65	1,640.88
6472.11	Satellite Install Exp. - GTC	667.44	
	Total Plant specific operations	104,951.92	97,703.55
6560	Depreciation and amortization		
6561.00	Depreciation Exp.	15,156.00	21,202.00
	Total Depreciation and amortization	15,156.00	21,202.00
6600	Customer operations		
6613.00	Advertising	1,394.30	2,227.18
6623.00	Customer Services	2,481.38	72,999.72
6623.11	Customer Service Exp. - GTC	12,038.68	
6624.00	Customer Services - Consulting Exp.		16,833.46
	Total Customer operations	15,914.36	92,060.36
6700	Corporate operations		
6710.00	Executive	1,010.00	1,113.59
6721.00	Accounting & Finance Exp	4,620.51	923.79
6722.00	External Relations		500.00
6725.00	Legal Exp.		80.00
6728.10	Other General Exps.	140.20	45.50
	Total Corporate operations	5,770.71	2,662.88
7240	General taxes		
7240.30	Franchise Tax	50.00	323.00
	Total General taxes	50.00	323.00
	OPERATING EXPENSES	141,842.99	213,951.79
7200	Income taxes		
7220.00	Federal Income Taxes	6,391.00	11,433.00
7230.10	State Income Taxes	1,451.00	2,596.00

Kiesling Associates LLP
3415
4/10/00 4:19PM

Grafton Technologies, Inc.
ADJUSTED TRIAL BALANCE REPORT
December 31, 1999

Page: 4
Prepared by: LCS
Reviewed by:

Lead + Sub	Description	Adjusted 12/31/98	Adjusted 12/31/99
	Total Income taxes	7,842.00	14,029.00
	INCOME TAX EXPENSE	7,842.00	14,029.00
	Total Expenses	149,684.99	227,980.79
	Net (Income) Loss	-12,409.48	-53,146.92

CERTIFICATE OF SERVICE

ICC Docket No. 00-0215

The undersigned, TROY A. FODOR, hereby certifies that on the 2nd day of May, 2000, he served a copy of the foregoing instrument by personally delivering a copy thereof and/or mailing a copy thereof by United States Mail, postage prepaid, at Springfield, Illinois, to the individuals named below in envelopes plainly addressed to each of them.

Mr. John Albers
Hearing Examiner
Illinois Commerce Commission
527 East Capital Ave.
P.O. Box 19280
Springfield, Illinois 62794-9280

Ms. Judy Marshall
Telecommunications
Illinois Commerce Commission
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Springfield, Illinois 62794-9280

Ms. Cindy Jackson
Consumer Services
Illinois Commerce Commission
527 East Capital Ave.
P.O. Box 19280
Springfield, Illinois 62794-9280



TROY A. FODOR